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Unicorp

UNICORP
FINANCIAL CORPORATION

1975 Annual Report

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DIRECTORS	Lawrence A. Brenzel Donald Rafelman Monte G. Singer, Q.C. Stephen A. Weintraub
OFFICERS	George S. Mann, President Lorie Waisberg, Secretary Stephen A. Weintraub, Treasurer
AUDITORS	Soberman, Isenbaum, Colomby & Nisker, Toronto
SOLICITORS	Goodman & Goodman, Toronto
BANK	Bank of Montreal, Toronto
TRANSFER AGENT AND REGISTRAR	United Trust Company, Toronto
STOCK LISTING	The Toronto Stock Exchange

UNICORP FINANCIAL CORPORATION
21 St. Clair Avenue East, Toronto, Ontario, M4T 1M1

UNICORP FINANCIAL CORPORATION

To our Shareholders:

We are pleased to submit the annual report of Unicorp Financial Corporation for the year ended December 31, 1975. Consolidated net earnings were $363,000 in 1975 compared with a loss of $369,000 in 1974.

Unicorp's return to profitability was the result of improved earnings by three of its major investments, namely, United Trust Company, Douglas Leaseholds Limited (controlled by United Trust), and Great Northern Financial Corporation.

In 1975 Unicorp sold its 79% interest in Douglas Leaseholds to United Trust in exchange for both common and preference shares of United Trust, thereby increasing Unicorp's holdings of United Trust from 54% to 71%, the position at year-end. Increased real estate activity, coupled with a curtailment of branch expansion and a number of cost-cutting and efficiency measures, enabled United Trust to turn around from a 1974 loss of $185,000 and a 1975 first quarter loss of $450,000 to a profit of $716,000 for the year ended December 31, 1975. This turnaround was most gratifying and the management team at United Trust is to be congratulated for its fine effort.

Douglas Leaseholds experienced an excellent year which saw net earnings rise from $124,000 in 1974 to $504,000 in 1975. Douglas Leaseholds had been relatively inactive for several years prior to its acquisition by Unicorp, and management is now making a positive effort to achieve higher financial returns from existing properties as well as actively seeking out new investment opportunities in the commercial real estate field.

Unicorp holds approximately 34% of the outstanding shares of Great Northern Financial Corporation (formerly Tribag Mining Co., Limited). Great Northern is a mortgage broker and mortgage lender specializing in the residential real estate area. Great Northern's success can best be demonstrated by the fact that net earnings increased from $181,000 in 1974 to $443,000 in 1975.

Unicorp's other major investment, 10% of the outstanding shares of Unity Bank of Canada, was a disappointment in 1975. Unity recorded a net loss of $607,000 in its 1975 fiscal year as opposed to a loss of $672,000 in fiscal 1974. During the year I became a director of Unity Bank, and am now Chairman of the Board. Steps are being taken to consolidate the position of the Bank, and we are hopeful that under the direction of its new President, T. L. Avison, an experienced banker, it will be able to realize its full potential.

As for Unicorp's real estate portfolio, three of our smaller properties in Toronto, 519 Danforth Avenue, 2322-24 Bloor Street West, and 394-400 Pacific Avenue, were sold in 1975 for a profit of $79,000, after provision for income taxes, to provide funds for our other operations. The other significant development in our real estate holdings in 1975 was that the McDonald's Restaurant, previously announced for our Yonge and Heath Street property, is now in full operation and producing revenue for your Company.

On behalf of the Board,

George S. Mann
President

UNICORP FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1975
(with comparative figures for 1974)

	1975	*1974*
Income		
Real estate commissions	$22,300,000	$11,220,000
Interest on mortgages	18,013,000	8,567,000
Interest and dividends on investments	2,166,000	998,000
Rentals	1,600,000	464,000
Other operating income	1,904,000	1,046,000
	45,983,000	22,295,000
Expenses		
Salaries, commissions and staff benefits	20,226,000	9,855,000
Interest on deposits and certificates	14,366,000	7,155,000
Premises and other property expenses	3,862,000	1,473,000
Interest on long term debt	1,092,000	295,000
Other operating expenses	4,491,000	4,017,000
Amortization of goodwill	99,000	52,000
Depreciation	1,567,000	803,000
	45,703,000	23,650,000
Earnings (loss) before income taxes, minority interest and items shown below	280,000	(1,355,000)
Income taxes – current	94,000	(690,000)
– deferred	124,000	62,000
	218,000	(628,000)
Earnings (loss) before minority interest and items shown below	62,000	(727,000)
Minority interest	49,000	(187,000)
Earnings (loss) before items shown below	13,000	(540,000)
Equity in net earnings of Great Northern Financial Corporation	138,000	—
Equity in net earnings of Douglas Leaseholds Limited	—	45,000
Earnings (loss) before extraordinary items	151,000	(495,000)
Extraordinary items (note 10)	212,000	126,000
Net earnings (loss)	$ 363,000	$ (369,000)
Earnings (loss) per share (note 13)		
Earnings (loss) before extraordinary items	$ .02	$ (.10)
Extraordinary items	.03	.02
Earnings (loss) per share	$ .05	$ (.08)

See accompanying notes to financial statements.

UNICORP FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEET
as at December 31, 1975
(with comparative figures for 1974)

	1975	1974
ASSETS		
Cash and deposit receipts	$ 27,091,000	$ 23,219,000
Securities (note 2)	9,256,000	8,692,000
Income taxes refundable	156,000	1,128,000
Mortgage and other loans (note 3)	176,907,000	161,319,000
Investment in other companies (note 4)	3,480,000	5,066,000
Office premises (note 5)	9,020,000	9,732,000
Real estate investments (note 6)	17,892,000	4,400,000
Other assets	880,000	560,000
Goodwill	3,884,000	3,839,000
	$248,566,000	$217,955,000
LIABILITIES		
Bank loan – secured	$ 4,262,000	$ 6,000,000
Deposits and borrowings (note 7)	205,117,000	185,776,000
Accounts payable and accrued charges	2,941,000	2,806,000
Income taxes payable	118,000	—
Notes and loans payable (note 8)	1,682,000	882,000
Mortgages payable (note 9)	14,527,000	6,087,000
Deferred income	897,000	1,254,000
Deferred income taxes	1,639,000	868,000
Minority interest	4,592,000	3,112,000
	235,775,000	206,785,000
SHAREHOLDERS' EQUITY		
Capital stock (note 4)		
Authorized—15,000,000 common shares without par value		
Issued — 7,036,806 shares (1974 – 6,736,806)	9,046,000	8,596,000
Appraisal increment (note 6)	1,129,000	—
Retained earnings	2,616,000	2,574,000
	12,791,000	11,170,000
	$248,566,000	$217,955,000

Approved on behalf of the Board:

LAWRENCE A. BRENZEL, Director

STEPHEN A. WEINTRAUB, Director

See accompanying notes to financial statements.

UNICORP FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1975
(with comparative figures for 1974)

	1975	*1974*
Balance, beginning of year	$2,574,000	$3,015,000
Add: Net earnings (loss)	363,000	(369,000)
: Retained earnings transferred from predecessor corporation	—	10,000
	2,937,000	2,656,000
Deduct: Income tax adjustment (note 4)	321,000	—
: Reorganization costs	—	78,000
: Cost of rights issue of United Trust Company	—	4,000
Balance, end of year	$2,616,000	$2,574,000

See accompanying notes to financial statements.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
UNICORP FINANCIAL CORPORATION

We have examined the consolidated balance sheet of Unicorp Financial Corporation and its subsidiaries, as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 23, 1976

SOBERMAN, ISENBAUM, COLOMBY & NISKER
Chartered Accountants

UNICORP FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1975
(with comparative figures for 1974)

	1975	*1974*
Source of funds:		
Net earnings (loss) before extraordinary items	$ 151,000	$ (495,000)
Add (deduct) items not requiring funds:		
Depreciation	1,567,000	803,000
Amortization of goodwill	99,000	52,000
Deferred income taxes	124,000	62,000
Deferred income	(357,000)	(6,000)
Equity in net earnings of subsidiaries	(138,000)	(45,000)
Minority interest	49,000	(187,000)
Cash provided from operations	1,495,000	184,000
Increase in deposits and borrowings	19,341,000	21,681,000
Proceeds from mortgage refinancing	2,091,000	—
Proceeds from sale of shares of publicly held companies	1,929,000	—
Proceeds from sale of real estate	1,617,000	836,000
Income taxes recovered	972,000	—
Notes payable	800,000	—
Issue of additional share capital (note 4)	450,000	6,115,000
Decrease in securities	—	12,051,000
Increase in bank loans	—	4,500,000
Reduction of note receivable	—	1,409,000
Increase in accounts payable	—	1,291,000
Investment in subsidiary company by minority shareholders	—	252,000
	$28,695,000	$48,319,000
Use of funds:		
Increase in mortgage and other loans	$15,588,000	$23,849,000
Increase in cash and deposit receipts	3,745,000	9,984,000
Decrease in bank loans	3,023,000	—
Additions to office premises and investment properties	2,646,000	4,372,000
Principal repayments on mortgages payable	1,232,000	1,198,000
Acquisition of additional shares in Douglas Leaseholds Limited (note 4)	854,000	—
Investment in other companies	766,000	406,000
Increase in securities	760,000	—
Changes in other assets and liabilities	81,000	325,000
Acquisition of shares in United Trust Company	—	7,633,000
Increase in income taxes refundable	—	552,000
	$28,695,000	$48,319,000

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation

(i) The consolidated financial statements include the accounts of:

(1) Canadian Jamieson Developments Limited, a wholly owned subsidiary; and

(2) United Trust Company, a 71% owned subsidiary (see note 4) from date of acquisition (June 19, 1974) and its wholly owned subsidiary, Moneyshop Holdings Limited; and

(3) Douglas Leaseholds Limited and its wholly owned subsidiary, Juniper Investments Limited from January 1, 1975 (79% owned by United Trust Company, see note 4). In 1974 Douglas Leaseholds Limited was accounted for on the equity method, but with the acquisition of majority control in 1975 its accounts have now been fully consolidated; and

(4) The corporation's proportionate share of the individual assets, liabilities, revenue and expenses of an unincorporated co-tenancy.

(ii) Investment in Great Northern Financial Corporation acquired January 31, 1975, is accounted for on the equity method since Unicorp Financial Corporation exercises effective rather than majority control.

(b) Depreciation

The corporation records depreciation and amortization on its major assets on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	5%
Office complex	2%
Furniture and equipment	20%
Leasehold improvements	over the terms of the lease to a maximum of ten years.
Rental properties—	
Douglas Leaseholds Limited	sinking fund method to fully depreciate buildings over a 35 year period.

(c) Goodwill

The excess of cost over equity in investment in subsidiaries is amortized over a period of 40 years from date of acquisition.

(d) Real estate commission income

Income from real estate commissions is recorded when the sale is closed.

(e) Mortgage fee income

Mortgage fee income is recognized over a five year period based on the "sum-of-digits" method.

(f) Deferred income taxes

The corporation follows the tax allocation method of recording taxes on income. Accordingly, recognition is given in the accounts to the income tax effect of the annual differences between reported earnings and taxable income. These differences arise from claiming maximum mortgage reserve for income tax purposes which is not recorded in the accounts and claiming depreciation and other items for income tax purposes on a basis different from that recorded in the accounts. The income tax effect of these differences is shown on the balance sheet as deferred income taxes payable.

(g) Property held for future development

Real estate investments include several properties which are held for future development. These properties are valued at cost plus maintenance, carrying and development costs (note 6).

2. Securities

Bonds are stated at amortized cost. Stocks are stated at cost.

	1975		1974	
	Cost	*Market*	*Cost*	*Market*
Bonds				
Government of Canada	$3,894,000	$3,678,000	$4,727,000	$4,601,000
Provinces of Canada	1,512,000	1,364,000	1,229,000	1,104,000
Other	2,996,000	2,891,000	1,328,000	1,199,000
	8,402,000	7,933,000	7,284,000	6,904,000
Stocks	854,000	764,000	1,408,000	1,145,000
	$9,256,000	$8,697,000	$8,692,000	$8,049,000

3. Mortgage and other loans

	1975	*1974*
Mortgage loans receivable, including accrued interest to December 31st	$193,058,000	$174,459,000
Less: mortgages payable assumed on properties for which the company holds participating and blanket first mortgages	17,220,000	14,572,000
: realty tax escrow payments (net)	523,000	306,000
	17,743,000	14,878,000
	175,315,000	159,581,000
Other loans	1,592,000	1,738,000
	$176,907,000	$161,319,000

4. Investment in other companies

	1975			1974
	Percent interest in Common Shares	*Number of Shares*	*Book Value*	*Book Value*
Equity Method				
Great Northern Financial Corporation	34.1	261,292	$ 904,000	$ —
Douglas Leaseholds Limited	—	—	—	1,775,000
Cost Basis				
Unity Bank of Canada	10.0	337,000	2,576,000	2,576,000
Autolec Inc.	—	—	—	715,000
			$3,480,000	$5,066,000

(Quoted market value, December 31, 1975 – $1,488,000; 1974 – $2,551,000)

On April 11, 1975, the corporation acquired an additional 252,500 shares of Douglas Leaseholds Limited (32%) in exchange for 67,375 shares of Autolec Inc. owned by the corporation and 300,000 treasury common shares of the corporation based on the following values:

Autolec Inc. – 67,375 shares	$404,000
Unicorp Financial Corporation – 300,000 shares	450,000
Douglas Leaseholds Limited – 252,000 shares	$854,000

On June 27, 1975 Unicorp Financial Corporation exchanged its holdings of 622,200 shares in Douglas Leaseholds Limited (79%) for 60,000 Series B second preference shares and 441,000 common shares of United Trust Company thereby increasing its holdings in United Trust Company to 71%. The intercompany gain on this exchange has been eliminated from these financial statements and the income taxes resulting from this transaction have been charged to retained earnings.

5. Office premises

Office premises, leasehold improvements and equipment are stated at cost less accumulated depreciation of $3,762,000 at December 31, 1975 and $2,436,000 at December 31, 1974.

6. Real estate investments

Real estate investments are stated at cost less accumulated depreciation of $1,005,000 at December 31, 1975 and $199,000 at December 31, 1974. The value of certain land holdings in Douglas Leaseholds Limited is based on two successive appraisals. The first appraisal was prepared in 1968 by Canada Permanent Trust Company and the second appraisal was prepared in 1975 by Chaffe, Mackenzie & Ray Limited.

7. Deposits and borrowings

	1975	*1974*
Savings, current and chequing accounts	$ 67,904,000	$ 49,398,000
Term deposits	561,000	16,310,000
Guaranteed investment certificates	136,652,000	120,068,000
	$205,117,000	$185,776,000

8. Notes and loans payable

Note payable, due March 31, 1977 – 10%	$ 200,000
Note payable, due March 31, 1978 – 10%	100,000
Note payable, due March 31, 1977 – 12%	500,000
Loans payable, on demand	882,000
	$1,632,000

During 1975 the corporation granted options to lenders to acquire 45,000 of its shares in United Trust Company at exercise prices varying from $4.50 per share to $6.75 per share. The option on 15,000 shares expires in February 1978 and the option on 30,000 shares expires in March 1979. No materially dilutive effect on the corporation's investment in United Trust Company would result from the exercise of these options.

9. Mortgages payable

	1975	*1974*
On office premises		
Fixed floating charge on all the fixed assets of United Trust Company, due on demand with interest related to bank prime	$ 3,861,000	$2,500,000
First mortgages bearing interest at rates varying from 6% to 9½% and maturing in various years from 1976 to 1983	304,000	606,000
	4,165,000	3,106,000
On real estate investments		
Mortgages bearing interest at rates varying from 6% to 12½% and maturing in various years from 1976 to 1994	10,362,000	2,981,000
	$14,527,000	$6,087,000

10. Extraordinary items

	1975	*1974*
Gain on sale of real estate (net of: 1975 – minority interest of $84,000 and income taxes of $109,000; 1974 – income taxes of $138,000)	$ 426,000	$ 126,000
Loss on sale of securities (net of minority interest of $24,000 and income tax recoveries of $74,000)	(214,000)	—
	$ 212,000	$ 126,000

11. Lease commitments

The corporation has contractual obligations in respect of lease rentals for which the approximate annual rental payments, exclusive of taxes, insurance and other occupancy charges, required for the years 1976 through 1980 are as follows:

Year ended December 31	
1976	$1,597,000
1977	1,575,000
1978	1,459,000
1979	1,330,000
1980	1,228,000

12. Remuneration of directors and senior officers

The aggregate direct remuneration paid to directors and senior officers of the corporation amounted to $55,000 in 1975 and $43,000 in 1974.

13. Earnings per share

Earnings per share is based on the weighted average number of shares outstanding during each year (1975 – 6,953,792 shares; 1974 – 4,782,416 shares).

14. Anti-Inflation Act

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the corporation and its subsidiaries are subject to mandatory compliance with controls on the payment of dividends. In addition, United Trust Company is subject to mandatory compliance with controls on profit margins and employee compensation. The effects of this legislation on the corporation and its subsidiaries have not yet been established. It is not anticipated that the Anti-Inflation Act will have any material effect on the 1975 financial statements.

15. Contingent liabilities

The corporation is contingently liable for all the obligations of a co-tenancy (21 St. Clair Ave. East, Toronto), in which it has a 49.5% interest. However, against this contingent liability, the corporation would have a claim upon the assets of the other co-tenants.